

SECTION D

LASAAC/TAG

Guidance

Source of Guidance

1. This section of guidance was drafted for IRAG approval by representatives, including Scottish Government and Audit Scotland staff, of LASAAC and TAG as the relevant accounting advisory committees for Scottish local government and the Scottish NHS respectively.

True and Fair View

2. Both the Local Authority Code of Practice and the FReM require that the financial statements provide 'a true and fair view'. This is an overriding requirement and this guidance does not abrogate that responsibility.
3. This guidance provides an indication of the anticipated principles that should apply. LASAAC and TAG may separately issue guidance, for local government and Health Boards respectively, in order to more fully inform the presentation of a true and fair view.

Materiality

4. Both the Local Authority Code of Practice and the FReM address the characteristic of materiality in relation to the annual accounts. This guidance does not prevent the application of judgement when determining materiality.

Integration Joint Board Accounts for 2015/16

5. Integration Joint Boards (IJBs) will be established during 2015/16. Some IJBs may not commence joint service delivery until 1 April 2016. It is considered that:
 - IJB annual accounts will be required for 2015/16 regardless of the date of commencement of joint service delivery. This is on the presumption that the IJB will have reportable transactions, such as operating costs, during 2015/16.
 - As local government bodies IJBs will need to comply with the Local Authority Accounts (Scotland) Regulations (SSI 2014/200; see also Local Government Finance Circular 7/2014). This includes requirements relating to internal control and governance; the submission of the annual accounts for audit; the public inspection process; provision of a Remuneration Report; the approval of the audited accounts and their publication.
 - IJB annual accounts for 2015/16 will be expected to present the partner contributions (gross), IJB operating costs and the cost of commissioned services (if any). It is anticipated, unless there are grounds for rebuttal, that

IJB operating costs will include the cost of support services provided by the partners.

Arrangements for Agreeing Final Balances and Transactions

6. It is anticipated that partners will include financial information regarding the IJB in their annual accounts. Local government and Health Boards have different timetable arrangements for the closure and audit of their financial statements. Consequentially, in the interests of collaborative working, it is considered that:
 - The necessary financial and non-financial information will be required by a mutually agreed date that allows Health Boards to meet their statutory obligations.
 - All the parties involved will need to ensure that arrangements are made to provide and agree this information by the agreed date. This should include the confirmation of inter-party transactions, balances and accounting treatment.
 - Undertaking this activity should be regarded as a key responsibility for all the CFOs of the relevant parties.
 - It is recommended that arrangements are implemented to review and agree balances and transactions on a regular basis during the financial year, not just at the year end.

Presumption of Applicability of IFRS 11 *Joint Arrangements*

7. It is considered that where an IJB comprises one Local Authority and one Health Board that IFRS 11 *Joint Arrangements* applies. This is based on the default presumption that the arrangement satisfies the requirement that 'joint control' exists, which is defined in IFRS 11 as:
 - "The contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control."
8. The 'contractually agreed sharing of control' is presumed by default to be evidenced by the formally approved Integration Scheme and the statutory framework and responsibilities of the partners.
9. The requirement for 'unanimous' consent is presumed by default to be met if the IJB comprises one local authority and one Health Board.

10. The default presumptions are open to rebuttal. For instance if the dispute resolution procedure provides one party with an override which negates the need for unanimous consent the definition of a joint arrangement would not be met.
11. Where an IJB involves more than one local authority it is considered less likely that the 'unanimous consent' requirement would be achieved, and therefore IFRS 11 would not be expected to apply. In that event application of the normal accounting judgements regarding control, and consequently classification as a subsidiary or an associate, would be anticipated.

Presumption of 'Joint Venture' Treatment (where IFRS 11 applies)

12. IFRS 11 requires that a joint arrangement is classified as either :
- A 'Joint Operation' where "the parties that have joint control have rights to the assets, and obligations for the liabilities, relating to the arrangement"
 - A 'Joint Venture': where "the parties that have control of the arrangement have rights to the net assets of the arrangement"
13. For IJBs this assessment is finely balanced. It is considered however that the presumed default classification of an IJB should be as a 'Joint Venture'³³. This is based on the following:
- There is no clear specification in the legislation as to the share of individual assets or obligations for liabilities that each partner has.
 - Partners do not have an automatic right of return of unused funds (available reserves), rather the partners have 50% / 50% control over the utilisation, within the IJB remit, of any carried forward reserves.

³³ In this respect the IFRS11 'Basis for Conclusions' was examined. Para BC43 includes:

"The Board believes that the accounting for joint arrangements should faithfully reflect the rights and obligations that the parties have in respect of the assets and liabilities relating to the arrangement."... "the economic substance of the arrangements does not depend exclusively on whether the activities undertaken through joint arrangements are closely related to the activities undertaken by the parties on their own"... "instead the economic substance of the arrangements depends on the rights and obligations assumed by the parties when carrying out such activities. It is those rights and obligations that the accounting for joint arrangements should reflect."

- This suggests that the partners have control/ rights to the residual 'net assets' rather than specified rights to specific assets and obligations for liabilities.
 - It is not expected that any Integration Scheme will specify partner rights to IJB assets or obligations for IJB liabilities.
 - The IJB has been established as a statutory body with its own statutory responsibilities, including strategic planning, service commissioning and service performance. Joint Venture treatment aligns the financial reporting and statutory responsibilities.
 - Scottish Government legal advice is that the *proximate* statutory responsibility for service provision is vested in the IJB itself.
14. The presumed default of Joint Venture treatment may be rebutted in favour of Joint Operation treatment where this is necessary to provide a true and fair view. Where Joint Operation presentation is adopted this may potentially indicate that the policy objectives of integration are at risk of not being achieved in the longer term.

Local Authority and Health Board Accounts

15. Joint Venture treatment of IJBs will require each partner to consolidate its interest in the IJB into group accounts. Where joint service delivery does not commence until 1 April 2016 partners may wish to consider the materiality of the consolidation in 2015/16. Relevant disclosure notes are anticipated to be required, irrespective of whether group accounts are presented.
16. IJBs are expected to be classified by the ONS as local government bodies. Consequently for Health Boards it should be noted that the interest in the IJB is expected to be ignored by the Scottish Government when the Scottish Government prepares its own consolidated annual accounts i.e. only the parent 'single entity' health board is expected to be consolidated by the Scottish Government.
17. It is considered that in adopting a Joint Venture treatment the IJB should be regarded as acting as principal in its own right. This implies that the 'gross expenditure' of each parent (i.e. in the local authority and health board 'single entity' accounts) will be affected. This is because the two primary transactions with the IJB (1. Partner contribution to the IJB and 2. IJB commissioning of services from the partner) are regarded as distinct and separate transactions.

18. The parent Comprehensive Income and Expenditure Statement / Statement of Comprehensive Net Expenditure would therefore be anticipated to include:

	£m
Contributions to IJB (incl set aside)	a.aaa
Expenditure on IJB Services (as commissioned by IJB)	b.bbb
Gross Expenditure	c.ccc
Income from IJB for Commissioned Services (incl set aside resources)	(d.ddd)
Gross Income	(d.ddd)
Net Expenditure	e.eee

19. This change in the trend analysis for the gross expenditure of each parent partner will require clear explanation and attention to presentation in each partner's financial statements. It is anticipated that LASAAC and TAG will, either separately or jointly, provide further guidance in this respect.